

C.6

MEMO TO: City Council

FROM: Rosemarie Ives, Mayor

DATE: March 15, 2005

SUBJECT: LODGING TAX FUNDING STRUCTURE

I. RECOMMENDED ACTION

- Approve a new funding structure of the hotel-motel tax distribution to allow a three-pronged approach to funding: 50% toward a designated tourism program, 39% toward City special events and arts programs that encourage tourism, 9% toward matching grants that encourage tourism, and 2% to cover administration costs; and
- Change the recommending committee from the administrative funding review group to the Lodging Tax Advisory Committee.

II. DEPARTMENT CONTACT PERSONS

Tom Paine, Chair, Lodging Tax Committee, 425-867-9813
Jacky Goren, Tourism Fund Administrator, 425-556-2441

III. DESCRIPTION/BACKGROUND

In December 1998, the City Council approved Ordinance 2007, levying a special excise tax of one percent on hotel-motel charges. At that time, the Lodging Tax Committee recommended that no award of funds would exceed 50% of the cost of the activity. The Lodging Tax Committee has since voted unanimously to change the structure of funding as outlined in the staff report to Council dated February 15, 2005 (Attachment A). This new proposal was discussed by the Public Administration and Finance Committee on February 22, 2005.

IV. IMPACT

- A. Service Delivery:** This program will encourage economic vitality by dedicating 50% of the hotel-motel tax to a designated tourism program specifically designed to increase overnight hotel visits. A successful program will increase revenues of the hotel-motel tax. Tourism will also be promoted by the funding of special events, arts and other programs that increase tourism in the City.
- B. Fiscal:** All funds come from a 1% special excise tax on overnight lodging. The estimated revenue for 2005 is \$200,300.

V. ALTERNATIVES TO STAFF RECOMMENDATION

The City Council could: 1) approve the recommendation; 2) amend the recommendation; or 3) disapprove the recommendation. Should Council decide on alternative 2 or 3, it must provide the Lodging Tax Advisory Committee 45 days to review and comment on Council's intended action.

VI. TIME CONSTRAINTS

The Lodging Tax Committee is anxious to move forward with the new funding structure without delay.

VII. LIST OF ATTACHMENTS

Attachment A: Staff Report dated February 15, 2005.

/s/
Tom Paine, City Councilmember

3/15/05
Date

Approved for Council Agenda: /s/
Rosemarie M. Ives, Mayor

3/8/05
Date

ATTACHMENT A

TO: Mayor and City Council

FROM: Tom Paine, Chair Lodging Tax Committee
Jacky Goren, Tourism Grant Administrator (425) 556-2441

DATE: February 15, 2005

RE: Lodging Tax Funding Structure Proposal

This proposal outlines a change in the structure of how the city distributes its hotel-motel tax revenue. It recommends a three pronged approach to funding instead of the current one-dimensional approach of matching grants. The purpose is to provide better predictability as well as flexibility, bring the city in line with best practices of other cities, and it is supported by the Lodging Tax Advisory Committee.

This proposal further recommends that the Lodging Tax Advisory Committee be responsible for making the recommendations directly to Council. The administrative funding review committee would continue to review for appropriateness and compliance with state law.

Background

The lodging tax was established in 1998. At that time, the Lodging Tax Advisory Committee developed the criteria to evaluate projects for funding consideration. The first set of matching grants was approved by Council in November 1999 when lodging tax revenue was estimated at approximately \$63,000. Since that date and with the addition of a new hotel, revenues have increased significantly. In 2005 revenues are anticipated at \$200,300. With the anticipated increase in revenue, and the experience gained during the past five years, it is timely to review the grant program for improvements on how projects are funded.

Given these changes, coupled with the concerns of some of the Lodging Advisory Committee members regarding solely allowing matching grants, an analysis of how other cities allocate lodging tax revenue was conducted. Cities collecting lodging tax revenue have various methods of allocating the funds. Most cities have a portion that is grant funded. However, there was only one other city that used a similar methodology to Redmond. Based on the majority of successful programs analyzed, most cities allocate proportionate amounts of dollars in various ways. Alternatives included contracts with outside sources to run a tourism program, set aside amounts for special events and matching grant proposals. A few cities hired their own in-house marketing team to allocate the funds that were based on recommendations by the Lodging Tax Advisory Committee. This new structure proposal incorporates many of the successful elements of various city programs.

At the Lodging Tax Committee meeting on September 30, 2004 discussion was held on proposed changes to the funding structure. At the February 10 Lodging Tax Committee meeting, the members unanimously approved the funding structure for allocation of the hotel-motel tax. The percentages outlined below are a compromise of the Lodging Tax Committee and reflect approximate amounts previously allocated to special events, individual grants, and the designated tourism program.

**Summary of Funding Structure Proposals
Major Elements**

Allocation	Percent	Background/Detail	Rationale
Designated Tourism Program	50%	This program will be specifically designed to bring overnight visitors to Redmond. The specifics of the program would be outlined in a Request for Proposal and would include contractor/administration costs as well as marketing expenses (website, brochures, advertising, etc.) as outlined under the RFP. The Lodging Tax Committee would review the contract and budget prior to submittal to Council for confirmation. The program would be reviewed annually by the Lodging Tax Advisory Committee.	Emphasizes primary purpose for hotel-motel tax dollars, and is a critical element with strong support by the Lodging Tax Committee.
Special Events & Arts	39%	This is the approximate amount allocated to special events in previous years. Event organizers would need to demonstrate the funds were directed toward encouraging tourism in Redmond. The Funding Review Committee (administrative group) would continue to review allocations to ensure appropriateness of use and compliance with state law. Council would continue to approve the allocations.	Maintains historical funding level for special events and arts that demonstrate strong linkages with bringing visitors to Redmond.

Allocation	Percent	Background/Detail	Rationale
Matching Grants	9%	<p>The matching grant program would not significantly change from its present status. Grants would need to match the current criteria set in place by the original Lodging Tax Committee and be based on a 50% match. Some past similar proposals include: Second Story Rep. and Redmond Historical Society proposals. The application process would remain at twice yearly: spring and fall. There would be two changes to the program:</p> <ul style="list-style-type: none"> • The current minimum of \$2,000 would be lowered to \$1,000. • After administrative review for suitability and legibility, the grants would pass through the Lodging Tax Advisory Committee for recommendation to Council. 	Dedicates funding for matching grant opportunities for programs/initiatives outside the scope of the aforementioned allocations and consistent with current practices.
Administrative Costs	2%	Reduced from 10%. This is a lower amount than previously authorized. However, because the annual revenue is higher it should be sufficient to cover the costs incurred to run the program.	Continues to fund city administrative costs at the appropriate level.

The advantages of changing the Lodging Tax funding structure from its present form include:

- Flexibility provided by a three-prong approach.
- Clearer oversight of the Lodging Tax Advisory Committee
- Commitment to a city-directed tourism program
- In line with best practices of other cities (see Attachment A)
- Approved by Lodging Tax Advisory Committee
- Stricter compliance with state hotel/motel tax law intent

If there are any questions about the specifics of the proposal, please contact Jacky Goren at 425-556-2441.